A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

AUGUST, 1984

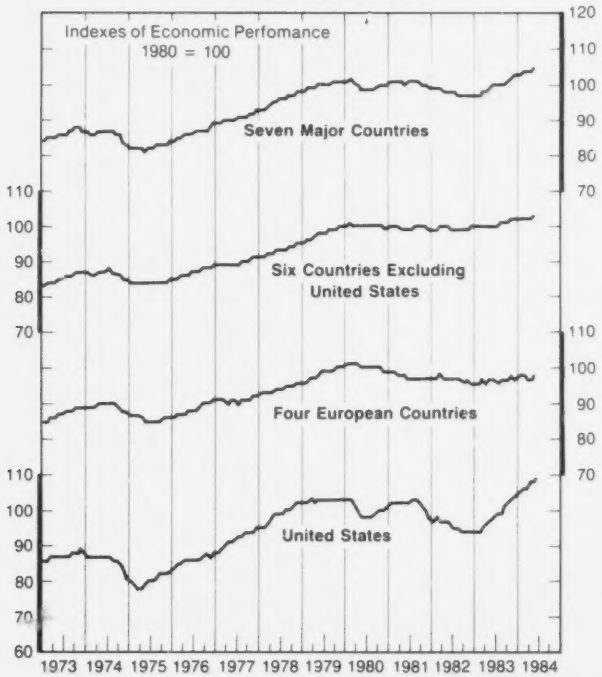
SUMMARY

For the first time in the current economic upswing, the composite leading index for the six major industrial countries outside the United States is rising faster than the U.S. leading index. The U.S. rate has slowed to 5% while the six-country rate is 7%. Japan, with an 11% growth rate, is the front-runner, and the leading indexes for France, West Germany and Italy are also rising faster than the U.S. index. Canada's index is climbing at the same pace as the U.S. Only the United Kingdom's 2% is slower. The economic performance indexes are rising slowly except in the U.S., where the slowdown in the leading index has yet to put much of a damper on the performance index.

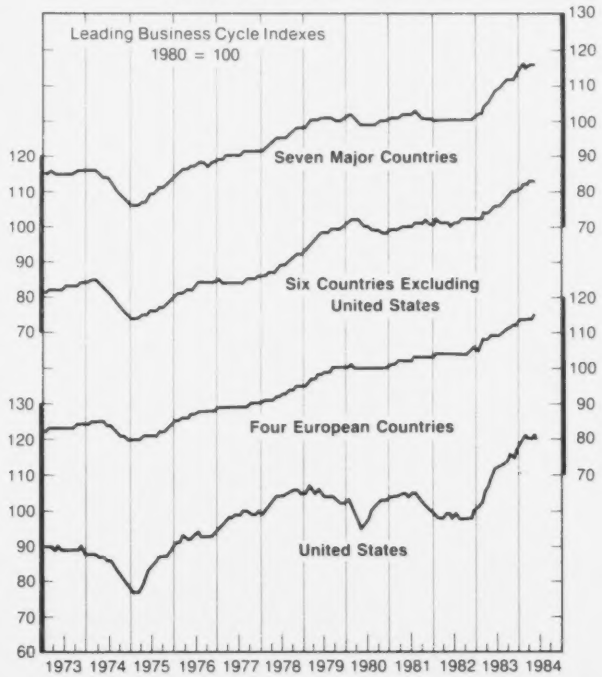
		*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
	Ten-year Growth Rate 1969-79	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
		annual rates, percent							
United States	3	12	11	11	15	11	5	Expansion continuing	June
Canada	4	6	4	2	12	7	5	Expansion continuing	May
Japan	5	4	5	4	14	12	11	Expansion continuing	May
United Kingdom	2	3	2	0	3	3	2	Slow recovery under way	May
West Germany	3	3	5	3	9	9	6	Recovery under way	May
France	4	– 1	–1	1	7	9	7	Slow recovery under way	May
Italy	3	1	3	3	5	3	6	Recovery under way	Feb./Mar.
7 countries	3	6	7	6	12	12	8	Expansion continuing	May
6 countries ex. U.S.	4	3	3	3	9	9	7	Recovery under way	May
4 European countries	3	2	2	2	6	7	5	Slow recovery under way	May
3 countries ex. Europe	4	8	10	9	15	15	9	Expansion continuing	May

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Where We Are


Indexes of Economic Perfomance
1980 = 100
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984

Where We're Headed


Leading Business Cycle Indexes
1980 = 100
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984

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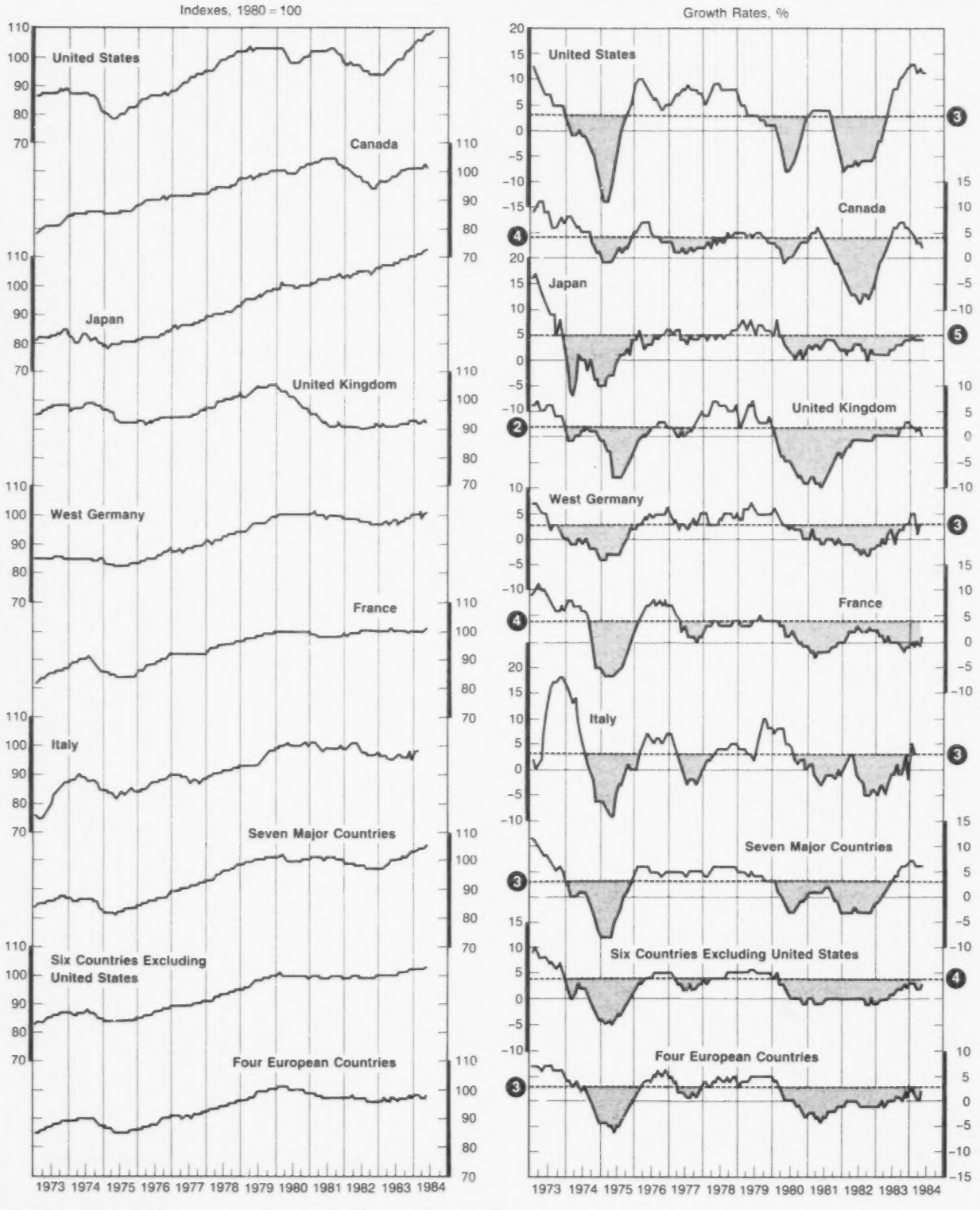
Where We Are

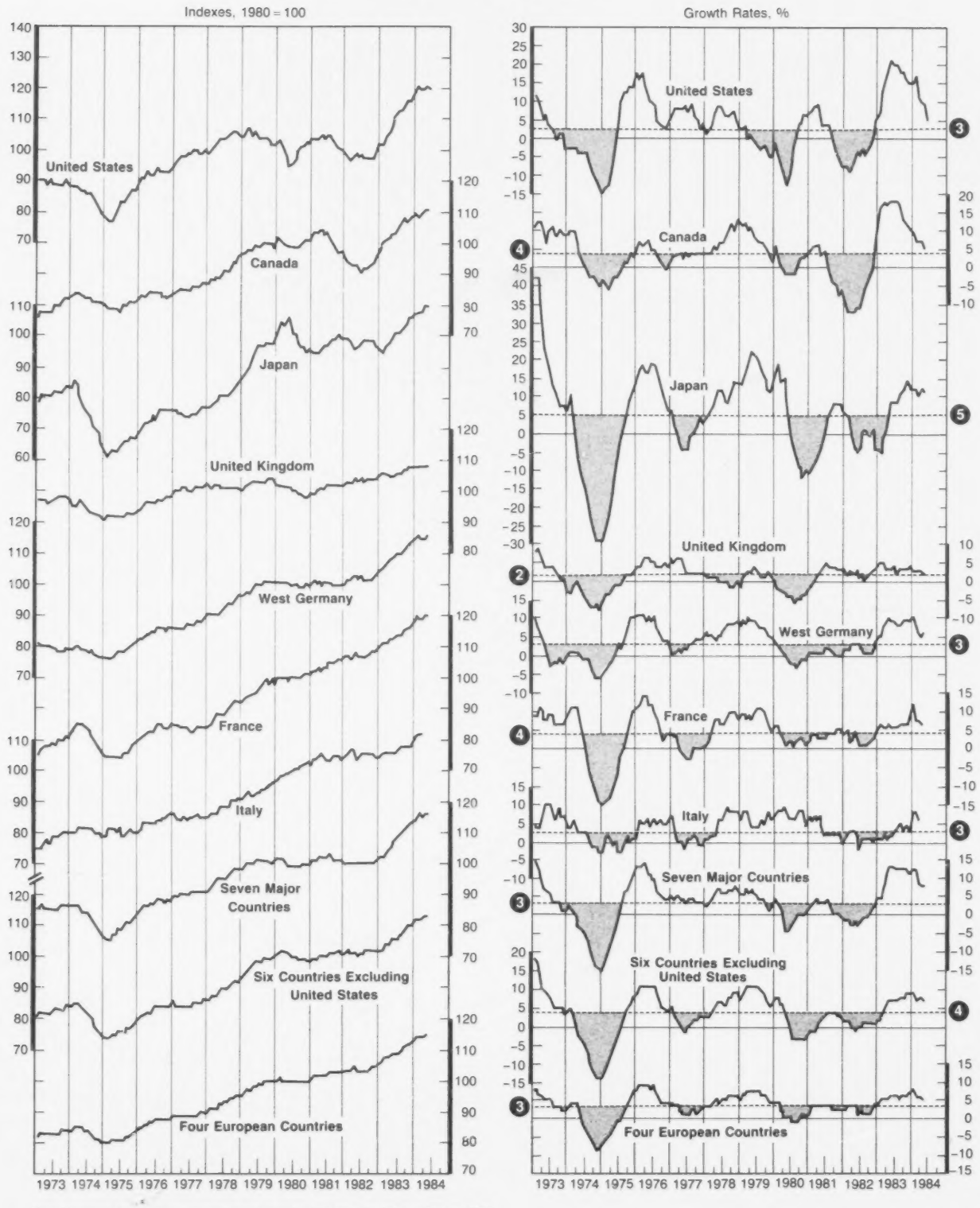
Indexes of Economic Performance



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP
Source: The Conference Board

Where We're Headed

Leading Business Cycle Indexes



Note: Horizontal dash lines are average growth rates for 1969-79 in the index and in real GNP.
Source: The Conference Board

NEW INDEXES FOR AUSTRALIA

New business-cycle measures have been compiled for Australia, comparable to the leading indexes and economic performance indexes for the seven largest industrial countries regularly reported in the *Scoreboard*. The recent behavior of these series shows that a cyclical recovery got under way "down under" in May 1983. Measured by both the leading and performance indexes, this recovery has been quite vigorous. As the chart shows, it has been more rapid than the average of four previous Australian recoveries. In addition the indexes have been rising faster than in any of the seven countries (see table below and on first page). Recent growth rates of the leading index, moreover, suggest that further expansion of the Australian economy lies ahead.

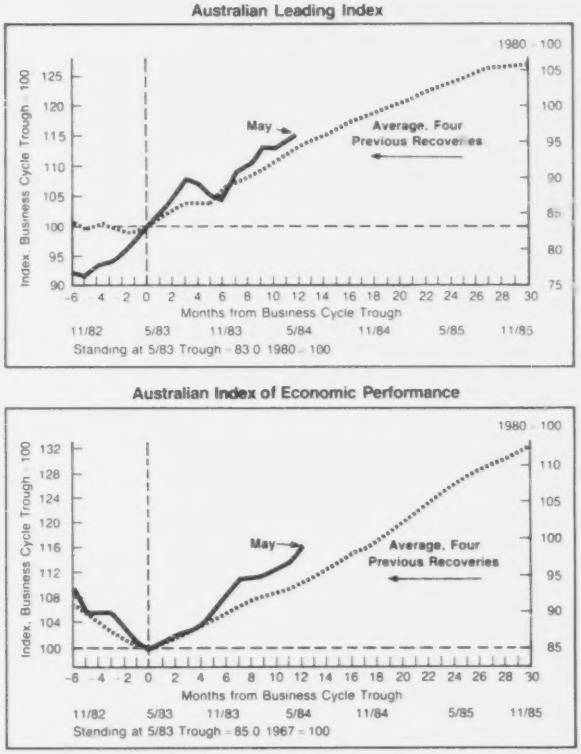
	Ten-year Growth Rates 1969–1979	*Six Months Ago*	*Three Months Ago*	*Latest Month*	*Latest Month Covered*
		Annual growth rates, percent			
Leading Indexes					
Australia	4	9	18	15	May
Seven countries	3	12	12	8	May
Economic Performance Indexes					
Australia	4	8	12	17	May
Seven countries	3	6	7	6	May

AUSTRALIAN INDEXES AND GROWTH RATES

	Indexes (1980 = 100)		*Growth Rates (%, Annual Rate)*	
	Economic Performance	*Leading*	*Economic Performance*	*Leading*
1982				
Jan.	108	89	0	–19
Feb.	106	85	– 2	–25
Mar.	106	84	– 3	–24
Apr.	106	83	– 3	–23
May	105	83	– 4	–22
June	104	80	– 5	–24
July	102	78	– 8	–25
Aug.	100	76	–11	–26
Sept.	98	76	–13	–22
Oct.	97	76	–13	–18
Nov.	93	76	–18	–15
Dec.	89	76	–22	–12
1983				
Jan.	90	78	–20	– 6
Feb.	90	78	–18	– 3
Mar.	88	79	–19	1
Apr.	86	81	–20	7
May	84	83	–21	13
June	85	85	–15	15
July	87	87	–10	20
Aug.	87	90	– 7	25
Sept.	88	89	– 3	21
Oct.	90	88	4	14
Nov.	92	86	8	9
Dec.	94	90	13	15
1984				
Jan.	94	91	13	15
Feb.	94	94	12	18
Mar.	96	94	16	16
Apr.	97	95	16	14
May	99	96	17	15

Source: Center for International Business Cycle Research, Columbia Business School

Patterns of the Current and Previous Recoveries, Australia


Australian Leading Index
1980 = 100
Index, Business Cycle Trough = 100
May
Average, Four Previous Recoveries
Months from Business Cycle Trough
11/82 5/83 11/83 5/84 11/84 5/85 11/85
Standing at 5/83 Trough = 83.0 1980 = 100
Australian Index of Economic Performance
1980 = 100
Index, Business Cycle Trough = 100
May
Average, Four Previous Recoveries
Months from Business Cycle Trough
11/82 5/83 11/83 5/84 11/84 5/85 11/85
Standing at 5/83 Trough = 85.0 1967 = 100

Source: Center for International Business Cycle Research, Columbia Business School

Australia's recovery started some six months after recovery began in the United States and at about the same time as recoveries began in Japan and the United Kingdom. These are the three countries—the first two especially in recent years—with the closest links to Australia's trade and financial markets.

The second table lists the individual leading indicators that are combined into the composite leading indexes for Australia and its three big trading partners, showing for each series the average lead time, in months, in advance of economic downturns and upturns. These indicators represent commitments currently being made with respect to future activity—such as applications for building permits to construct housing—or they are factors that influence such commitments. That is why the leaders anticipate movements in the economy's output, trade, income and employment.

As in the case of other countries, some of the Australian indicators are only roughly equivalent to those for the United States. Factory overtime is used in place of the average workweek, net demand for new telephone service in place of net business formation, and change in overdraft limits outstanding in place of change in consumer installment credit. There are also three gaps where no series is available. Nevertheless, as the table shows, the typical lead times for Australia closely resemble those for the other countries. Hence the leading index for Australia, constructed from the nine series, has given reliable early warning signals of recession and recovery since 1949, and is closely comparable with the indexes for other countries reported in the *Scoreboard*.

In view of the encouraging results of the study of Australian indicators (recently completed by Professor Ernst Boehm of Melbourne University while a visiting scholar at the Center for International Business Cycle Research), the Center expects to complete arrangements soon to keep the figures up to date and report them regularly in the *Scoreboard*.

MEDIAN LEADS AND LAGS OF LEADING INDICATORS AT GROWTH CYCLE PEAKS AND TROUGHS, FOUR COUNTRIES

Indicator: U.S. Title	*Australia*	*United States*	*Japan*	*United Kingdom*
		Lead (–) or lag (+), in months		
Average workweek, manufacturing	– 3	– 2	– 4	– 2
New unemployment claims	NA	– 2	NA	NA
New orders, consumer goods	NA	– 2	NA	NA
Formation of business enterprises	– 8	– 4	–13	– 8
Contracts and orders, plant and equipment	– 1	– 2	– 4	– 3
Building permits, housing	– 6	– 7	– 9	–11
Change in business inventories	NA	– 1	– 2	– 5
Change in industrial materials prices	– 2	– 4	– 7	+ 3
Stock price index	– 6	– 4	– 6	– 8
Profits	– 2	– 2	–10	– 3
Ratio, price to unit labor cost	–12	– 7	– 2	–12
Change in consumer debt	– 8	– 6	– 9	–16
Composite leading index	– 4	– 2	– 4	– 6

Source: Center for International Business Cycle Research, Columbia Business School

The Conference Board, Inc.
845 Third Avenue, New York, N.Y. 10022
(212) 759-0900 Telex 234465 and 237282

The Conference Board of Canada
25 McArthur Road
Ottawa, Ontario, K1L-6R3, Canada
(613) 746-1261

The Conference Board, Inc.
Avenue Louise, 207 Bte 5
B-1050 Brussels, Belgium
(02) 640 62 40 Telex 63635

INDEXES, SEVEN COUNTRIES, 1982-83

		U.S.		Canada		Japan		U.K.		West Germany		France		Italy		7 Countries		6 Countries ex. U.S.		4 Countries Europe	
		Indexes, 1980 = 100																			
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Dec.	82	94	100	95	95	106	96	91	104	97	104	100	108	97	105	97	101	100	102	96	105
Jan.	83	94	101	96	98	106	95	91	105	97	105	100	109	96	105	97	102	100	102	96	106
Feb.	83	94	102	96	100	107	94	91	106	97	105	100	111	96	106	97	102	100	102	96	107
Mar.	83	95	105	97	101	107	96	91	106	98	107	100	111	96	106	98	104	100	104	97	108
Apr.	83	96	107	97	102	107	97	91	105	97	108	100	112	95	106	98	105	100	104	96	108
May	83	97	109	98	103	107	99	91	106	98	109	101	112	95	106	99	107	100	105	97	109
June	83	98	111	99	104	108	101	91	106	98	109	100	112	96	106	100	108	100	106	97	109
July	83	99	112	99	105	108	101	91	106	97	110	100	113	96	107	100	109	100	106	96	109
Aug.	83	99	113	100	107	109	102	92	106	98	110	100	113	97	108	100	110	101	107	97	110
Sept.	83	101	114	100	108	109	103	92	107	98	111	100	115	96	108	101	111	101	108	97	111
Oct.	83	102	116	101	107	109	104	92	107	99	112	99	115	96	108	101	112	101	109	97	111
Nov.	83	103	116	101	108	110	106	93	107	99	113	100	116	98	108	102	112	102	110	98	112
Dec.	83	104	117	101	109	110	106	93	108	100	114	100	117	95	108	103	113	102	110	97	112
Jan.	84	105	119	101	110	110	107	93	108	100	115	100	120	98	111	103	115	102	111	98	114
Feb.	84	106	121	101	109	111	108	92	108	101	116	100	119	98	112	104	116	102	112	98	114
Mar.	84	106	120	101	110	111	108	92	109	99	115	100	119		112	104	115	102	112	97	114
Apr.	84	108	120	102	111	112	110	93	108	100	115	100	120			104	116	102	113	97	114
May	84	108	121	101	111	112	110	92	108	100	116	101	120			105	116	103	113	98	115
June	84	109	120																		
		Growth Rates, Percent																			
Dec.	82	-4	5	-5	6	1	-4	0	3	-2	4	2	3	-4	1	-2	3	0	1	-1	3
Jan.	83	-2	6	-2	13	1	-4	0	4	-1	5	2	4	-5	1	-1	4	0	2	-1	4
Feb.	83	-2	7	-1	16	1	-5	0	5	-1	5	1	7	-4	1	-1	4	0	2	-1	5
Mar.	83	0	13	1	17	1	-1	0	5	0	7	1	6	-3	2	0	8	0	4	0	5
Apr.	83	2	15	2	18	1	1	0	3	-1	8	0	6	-5	1	1	9	0	5	-1	5
May	83	5	18	4	17	1	6	0	3	1	10	1	7	-3	2	2	11	1	7	0	6
June	83	7	21	5	18	2	8	0	3	2	9	0	6	-1	2	4	13	1	7	0	6
July	83	8	20	6	18	2	8	0	4	-1	9	0	6	-1	3	4	13	1	7	0	6
Aug.	83	8	20	6	18	3	8	1	2	1	8	0	6	1	4	4	12	2	7	1	5
Sept.	83	10	18	7	17	3	11	2	3	2	8	-1	7	-1	5	5	12	2	8	1	6
Oct.	83	11	18	7	13	4	12	2	3	2	9	-2	7	-1	3	6	12	2	8	1	6
Nov.	83	11	16	6	12	4	14	3	3	3	9	-1	7	3	4	6	12	3	9	2	6
Dec.	83	12	15	6	10	4	12	3	4	3	9	-1	8	-2	3	6	11	3	9	1	7
Jan.	84	13	15	5	9	4	12	2	3	5	10	0	12	5	8	7	12	3	9	3	8
Feb.	84	13	17	4	7	5	12	2	3	5	9	-1	9	3	8	7	12	3	9	2	7
Mar.	84	11	11	3	7	4	10	1	3	1	6	0	8		6	6	9	2	7	1	6
Apr.	84	12	10	3	7	4	12	2	3	3	5	-1	8			6	8	2	8	0	6
May	84	11	9	2	5	4	11	0	2	3	6	1	7			6	8	3	7	2	5
June	84	11	5																		
		Ten Year Annual Growth Rate, Percent																			
1969-79		3	3	4	4	5	5	2	2	3	3	4	4	3	3	3	3	4	4	3	3

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

Each issue of the *Scoreboard* includes indexes of economic performance for the major industrial nations as well as the leading indexes. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across the Board,* April 1980 and *Business Cycles, Inflation and Forecasting,* Ballinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however. Constant monitoring is needed to make effective use of the system and get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes for the seven major industrial nations were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates, 1969-79, are equal to those in real GNP in the country concerned. These growth rates are shown at the bottom of the table on the back page and by horizontal lines on the right panel of the charts on pages 2 and 3.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

Center for International Business Cycle Research
Columbia Business School
New York, New York 10027
Telephone: 212-280-2916